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GENERAL BUSINESS CONDITIONS

I. THE INDEX

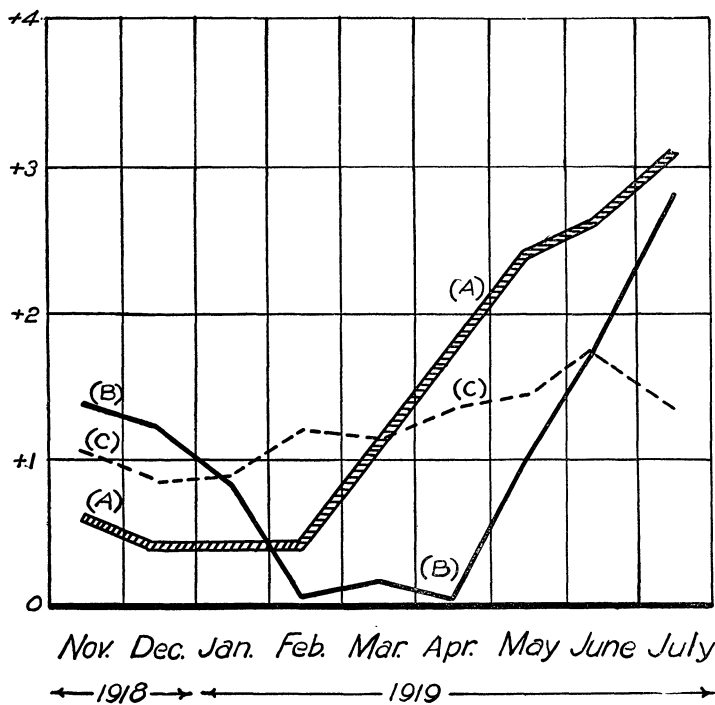


CHART I. — COMPARISON OF THE AVERAGES BASED ON GROUPS A, B, AND C.

- (A) Average of the following series of Group A:
(1) New York Clearings, (8) Shares Traded, (18) Price of Industrials.
(B) Average of the following series of Group B:
(3) Outside Clearings, (4) Bradstreet's Prices.
(C) Average of the following series of Group C:
(13) Rate on 4-6 Months Paper, (14) Rate on 60-90 Day Paper.

DATA presented in the April number of THE REVIEW OF ECONOMIC STATISTICS showed that during the period 1903-14 certain series of fundamental business statistics for the United States fell into three broad groups, reflecting respectively (A) speculative activity, (B) industrial activity, and (C) bank expansion and contraction. For each of these groups an average was computed from selected series, corrected for seasonal variation and secular trend. During the period

1903-14, it appeared that these group averages had moved in certain fixed relations to one another. Group A forecasted Group B, while Group C lagged behind Group B, and afforded some indication of the future movement of Group A. (See the chart in the April REVIEW OF ECONOMIC STATISTICS, p. 112.) Together they afforded a reasonably accurate summary of the course of business in a period including all phases of the business cycle. In other words, these three averages constituted an intelligible index of business conditions which, when properly interpreted, threw light upon future tendencies as well as upon current movements.

The Great War introduced into the business situation so many abnormal elements that the usual relations reflected by the statistical series were much disturbed. These abnormal factors are only gradually disappearing. Consequently, an index identical with that prepared for the period 1903-14 cannot be relied upon for the war period or, in the usual manner, for the subsequent transition period. Nevertheless, as was shown in the MONTHLY SUPPLEMENT for July, a monthly index constructed on the same plan from November 1918, with certain necessary modifications, reveals the same characteristics as the pre-war index and deserves careful study in spite of its temporary defects.

The present number of the MONTHLY SUPPLEMENT continues the presentation of this current index of business conditions and its elements, which was begun in the July issue. Since the readjustments from the extraordinary war period continue, it is necessary to repeat the caution that the conclusions to which it points rest upon a narrower basis than those for pre-war years, and are provisional and subject to revision. The present tentative conclusions will first be summarized, and then followed by more detailed consideration of the three groups of series and their components.

ACTUAL ITEMS OF FUNDAMENTAL SERIES OF BUSINESS STATISTICS, 1918-19*

	GROUP A												GROUP B					
	Yield on ten railroad bonds (Units of one per cent)		Price of twenty railroad stocks (Units of \$1)		Price of industrial stocks (Units of \$1)		Building permits (Units of \$100,000)		New York clearings (Units of \$10,000,000)		Shares traded (Units of 10,000 shares)		Production of pig iron (Units of 1,000 tons)		Outside clearings (Units of \$10,000,000)		Imports (Units of \$100,000)	
	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918
January	5.13	5.25	82.8	79.1	81.6†	76.6	134	212	1786	1472	1186	1362	3302	2412	1456	1183	2130	2339
February	5.24	5.27	83.1	80.2	82.4	80.0	207	173	1419	1226	1221	1142	2940	2319	1160	1000	2352	2077
March	5.29	5.32	84.3	80.7	86.5†	78.0	328	190	1649	1384	2140	842	3090	3213	1359†	1224	2676	2422
April	5.31	5.37	84.6	79.1	91.2	77.6	495	286	1733	1409	2859	740	2478	3288	1326	1239	2730	2790
May	5.26	5.29	88.4	81.8	99.4†	81.0	640	259	1888	1556	3441	2114	2108	3446	1428	1271	3289	3229
June	5.24	5.37	88.3	83.0	103.6	80.4	778†	243	1975	1486	3286	1177	2115	3324	1449	1246	2931	2604
July	5.33	5.43	88.3	82.8	109.7	81.8	759†	246	2188	1540	3450	845	2429	3421	1562	1324	3446†	2419
August		5.47		84.4		82.0		225		1496		689		3390		1320		2730
September		5.51		85.4		82.5		185		1366		776		3418		1271		2617
October		5.39		88.4		86.2		118		1692		2067		3487		1516		2468
November		4.98		89.0		84.0		81		1561		1465		3354		1375		2510
December		5.06		85.6		82.5		85		1666		1192		3434		1415		2110

* Data are monthly averages or aggregates except for two series: Bradstreet's prices relate to the first day of the month, and Unfilled

orders of the United States Steel Corporation to the last day of the month. † Preliminary figure. ‡ Revised figure.

The general course of business since November 1918 is roughly reflected in Chart I, which shows the monthly averages for the three groups of series. Speculative activity, reflected by curve A, began in March, after four months of comparative stability, an upward movement which continued through July. Industrial activity, reflected by curve B, suffered a decline in the four months after the armistice, but since April, after two months of hesitation, has pursued a strong upward course. Here, as in pre-war years, Group B shows its tendency to follow Group A. Judging by these months, as well as by the pre-war period, the sustained strength of the speculative movement presages a continuance of industrial activity, at least for some months. Whether the sharp break which occurred in the stock market the first week in August indicates that within a few months industrial activity and prices will decline, or whether it is merely such a setback as has often occurred before in a strong bull market, we are unable to determine at this time.

All of the most significant series reflecting speculative and industrial activity either establish new high records in July or show figures closely approaching previous records — notably clearings, industrial securities prices, stock exchange trading, and commodity prices. Building permits have risen from unprecedented depths to nearly record heights in eight months. The exceptions are the *average price of railroad stocks*, which continues low; the *yield of ten railroad bonds*, which being quite high reflects the exceedingly low prices of the bonds; and finally, *pig-iron production*, and *unfilled orders of the United States Steel Corporation*, which are only gradually being readjusted to a peace basis. The low record for *business failures* is an exception in appearance but not in reality.

The significance of the high records is frequently exaggerated in current discussions which rely mainly

upon the crude figures. In most cases the underlying tendency is upward, with the normal growth of population; and a great increase in the price level, like that witnessed in recent years, is reflected not only in the price indices but in all items expressed in money terms. Our method makes allowance for these factors in arriving at the indices of change shown in these MONTHLY SUPPLEMENTS, but data for several more months must be at hand before the correctness of the allowances can be reasonably tested.

A fully satisfactory index of financial activity, or bank expansion and contraction, has not yet been constructed for the period since November 1918. Data for loans and deposits which were available for the period 1903-14 are not now available in comparable form. The institution of the federal reserve system has profoundly modified the banking situation, and we have no pre-war experience with it for comparison with current months. Victory and Liberty bonds have invisible and incalculable effects on the general loan market. Certain current aspects of the problem were discussed briefly in the July SUPPLEMENT, pp. 6, 7, and others are more fully dealt with in the special article on "Discount Rates and Banking Statistics" elsewhere in this issue.

For the present, curve C reflects merely the trend of quoted rates on commercial paper; but it may be remarked that the loans and deposits data available are in rough accord with these. Rates, loans, and deposits are on a high level and show an irregular upward trend from January until June, when a downward tendency appeared. Both the upward movement and the July reaction, however, are relatively slight. If these series were to show their pre-war tendency to follow Group B with a lag of some months, we should expect before long a sharper increase in rates than is in immediate prospect. But the present height of the rates, the strength of the reserve banks in reserves, and the availability of

ACTUAL ITEMS OF FUNDAMENTAL SERIES OF BUSINESS STATISTICS, 1918-19 *

	GROUP B								GROUP C									
	Unfilled orders U. S. S. C.* (Units of 10,000 tons)		Business failures (Bradstreet) (Units of one failure)		Bradstreet's prices * (Units of \$1)		Bureau of Labor prices (Units of one per cent)		Dividend payments (Units of \$100,000)		Rate on four-to- six months paper (Units of one per cent)		Rate on sixty-to- ninety day paper (Units of one per cent)		Loans, discounts, invest'ts, etc., of New York banks\$ (Units of \$10,000,000)		Deposits of New York banks\$ (Units of \$10,000,000)	
	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918	1919	1918
January	668	948	573†	1219	18.53	17.96	273	250	622	670	5.44	5.83	5.19	5.58	475	411	394	366
February	601	929	492	918	17.63	18.08	266	253	409	448	5.41	5.88	5.19	5.69	476	423	381	362
March	543	906	485†	893	17.22	18.05	270	253	527	650	5.50	6.00	5.38	5.88	485	434	392	368
April	480	874	459†	829	17.28	18.44	274	258	604	625	5.50	6.08	5.38	5.90	489	442	400	375
May	428	834	431†	792	17.24	18.89	280	258	283	305	5.50	6.13	5.38	5.88	497	454	410	370
June	489	892	421†	747	18.09	18.98	279	261	408	617	5.66	6.03	5.53	5.88	502	450	408	374
July	558	888	413	771	18.90	19.18		268	535	567	5.56†	6.10	5.42	5.88	496	438	406	362
August		876		747	20.00	19.12		273	436	468†		6.22		5.94		450		362
September		830		657		19.05		280		610†		6.00		6.00		455		374
October		835		688		19.02		276		606		6.00		6.00		470		377
November		812		549		18.91		279		333		6.00		5.97		472		380
December		738		566		19.02		279		595		5.97		5.78		466		386

* Data are monthly averages or aggregates except for two series: *Bradstreet's prices* relate to the first day of the month, and *Unfilled orders of the United States Steel Corporation* to the last day of the month.

§ Clearing House banks, including members of Federal Reserve Bank, and state banks and trust companies not in the federal reserve system. † Preliminary figure. ‡ Revised figure.

government bond issues for collateral, may for the time relegate this group to the background.

II. THE THREE GROUPS OF SERIES

GROUP A

Chart II shows the monthly fluctuations, since November 1918, of the following series of business statistics, corrected for seasonal variation and secular trend:

- New York bank clearings.
- Price of twenty industrial stocks.
- Shares traded on the New York Stock Exchange.
- The value of building permits in twenty leading cities.
- The yield of ten railroad bonds (reversed).

During the period 1903-14 these five series moved in general together, reflecting speculative activity and forecasting the movement of Group B.

Not quite the same can be said of the period since November 1918. *The price of twenty railroad stocks*, also included in this group for the pre-war period, is temporarily excluded: owing to government control of railroads and the special questions now agitating the railroad world, it does not appear at present to contribute significantly to the index of general business conditions. *The yield of ten railroad bonds*, although shown on the chart, is obviously out of line with the companion series, owing partly to the considerations affecting railroad stocks, and largely also to the influence of government war bond issues and the great foreign demand for American capital. Finally, at the signing of the armistice, *the value of building permits* stood at a much lower level than the remaining series, as a result of government restrictions in war time. Ever since it has been rapidly recovering, and especially since March it has risen with a rapidity unequaled by any other series.

While the postponement of building during the war, coupled with the present high price level, may keep it abnormally high for some time, its fluctuations on the present levels are likely to have their pre-war significance.

The other three series, *New York clearings*, *shares traded*, and *price of industrials*, agree in showing persistent stability from November to February and a strong upward sweep until the first week of August. It is the average of these corrected series which is taken at present as a fair indication of speculative activity since November 1918, and which, as shown by the shaded line (A) on the chart, continued its upward movement in July.

Interpreted on the basis of the pre-war sequence, this evidence indicates that a period of strong commodity prices and continued industrial activity may be expected. With due allowance for present exceptional factors, the movements of the series which have not been included in the average do not seem to afford contrary evidence.

GROUP B

Charts III and IV show the monthly fluctuations, from November 1918, of the following seven commodity price and production series, corrected for seasonal variation and secular trend:

- Bank clearings outside New York City.
- Bradstreet's index of commodity prices.
- Bureau of Labor index of wholesale prices.
- Business failures (reversed).
- Merchandise imports of the United States.
- Production of pig iron.
- Unfilled orders of the United States Steel Corporation.

These series fluctuated roughly together during the pre-

CORRECTED ITEMS OF VARIOUS SERIES OF BUSINESS STATISTICS *
(CYCLES)

	GROUP A					GROUP B							GROUP C		
	Yield on ten railroad bonds	Price of industrial stocks	Building permits	New York clearings	Shares traded	Production of pig iron	Outside clearings	Imports	Unfilled orders U. S. S. C.	Business failures (Bradstreet)	Bradstreet's prices	Bureau of Labor prices	Dividend payments	Rate on four-to-six months paper	Rate on sixty-to-ninety day paper
1918															
November	-.9	+.7	-3.8	+1.0	+.1	+.8	+.7	+1.1	+.5	-4.2	+2.0	+2.4	-.1	+1.0	+1.1
December	-.3	+.5	-3.7	+1.1	-.3	+.9	+.7	-.7	+.2	-5.0	+2.2	+2.4	+1.6	+1.0	+.7
1919															
January	+.2	+.4†	-3.0	+1.1	-.3	+.7	+.9	-.8	-.1	-6.0	+1.4	+1.6	0	+.9	+.9
February	+1.0	+.5	-2.4	+1.1	-.3	+.3	+.3	+.3	-.4	-4.5	+.1	+.6	+1.0	+1.1	+1.3
March	+1.3	+.9	-2.1	+1.4	+1.0	-.1	+.7‡	+.4	-.7	-4.6	-.6	+1.2	-.1	+1.0	+1.3
April	+1.5	+1.3	-.8	+1.7	+2.1	-1.0	+.6	+1.4	-1.0	-4.6	-.5	+1.8	-.1	+1.3	+1.4
May	+1.1	+2.0‡	+.8	+2.3	+2.9	-1.7	+1.9	+3.8	-1.2	-4.6‡	-.5	+2.6	-1.2	+1.3	+1.6
June	+1.0	+2.4	+2.2	+2.8	+2.7	-1.4	+2.0	+2.6	-1.0	-4.5‡	+.8	+2.4	-.4	+1.6	+1.9
July	+1.6	+2.9	+2.3‡	+3.6	+2.9	-.8	+2.8	+4.6‡	-.7	-4.8	+2.0		-1.2	+1.3‡	+1.4
August											+3.7		+1.4		

* These figures, which are plotted on Charts II-V, represent the trend of the series when the original data shown on the preceding pages have been corrected for seasonal variation and secular trend, as described in the April REVIEW, p. 139, and the MONTHLY SUPPLEMENT for July, pp. 7-10. † Preliminary figure. ‡ Revised figure.